

**Assembly Bill No. 1198**

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Passed the Assembly August 29, 2016

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*Chief Clerk of the Assembly*

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Passed the Senate August 23, 2016

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*Secretary of the Senate*

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This bill was received by the Governor this \_\_\_\_\_ day  
of \_\_\_\_\_, 2016, at \_\_\_\_\_ o'clock \_\_\_\_M.

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*Private Secretary of the Governor*

## CHAPTER \_\_\_\_\_

An act to add the headings of Article 1 (commencing with Section 17170) and Article 2 (commencing with Section 17172) to, and to add Article 3 (commencing with Section 17200) to, Chapter 18 of Part 10 of Division 1 of Title 1 of the Education Code, relating to school facilities, and making an appropriation therefor.

## LEGISLATIVE COUNSEL'S DIGEST

AB 1198, Dababneh. School facilities: California School Finance Authority: California Credit Enhancement Program.

The California School Finance Authority Act establishes the California School Finance Authority, and authorizes the authority to, among other things, issue revenue bonds to finance or refinance educational facility projects for school districts, charter schools, county offices of education, and community college districts. Existing law establishes the California School Finance Authority Fund, administered by the authority, and continuously appropriates moneys in the fund for purposes of the act.

This bill would create within the authority the California Credit Enhancement Program for the purpose of establishing a fund to insure school facility bonds issued by the authority pursuant to the act, as specified. The bill would create the California Credit Enhancement Account within the California School Finance Authority Fund, would authorize the authority to deposit fees collected pursuant to the program in that account, and would specify that bond insurance, credit enhancement, or other guarantees of the authority shall be payable solely from funds available in that account. By authorizing money in the California School Finance Authority Fund to be used for a new purpose, the bill would make an appropriation. The bill would require the authority to adopt regulations to carry out the program, including, but not limited to, regulations establishing eligibility criteria and a definition of "default" for purposes of the program.

Appropriation: yes.

*The people of the State of California do enact as follows:*

SECTION 1. The Legislature finds and declares all of the following:

(a) One of the biggest challenges currently faced by charter schools is finding suitable facilities and funding for those facilities. Charter schools typically do not receive local funding through bonds and must pay for their facilities out of general operating expenses. As a result, many charter schools turn to private financing and bond transactions to pay for a long-term facilities solution.

(b) The California School Finance Authority currently operates several valuable programs to assist schools seeking facilities financing, including its conduit revenue bond financing program. However, because charter schools are generally rated low or below investment grade, and the State of California does not directly guarantee or provide for payment of charter school revenue bonds issued through the California School Finance Authority, charter schools that issue revenue bonds to finance public school facilities face excessive interest rates.

(c) A program that provides funds to insure or guarantee school facility bonds issued by the California School Finance Authority to assist charter schools with the acquisition, renovation, or construction of school facilities, or the refinancing of existing charter school facility debt, would lower borrowing costs for those schools and ensure more funds remain in California's classrooms.

SEC. 2. The heading of Article 1 (commencing with Section 17170) is added to Chapter 18 of Part 10 of Division 1 of Title 1 of the Education Code, to read:

Article 1. General Provisions

SEC. 3. The heading of Article 2 (commencing with Section 17172) is added to Chapter 18 of Part 10 of Division 1 of Title 1 of the Education Code, to read:

Article 2. California School Finance Authority

SEC. 4. Article 3 (commencing with Section 17200) is added to Chapter 18 of Part 10 of Division 1 of Title 1 of the Education Code, to read:

Article 3. California Credit Enhancement Program

17200. There is hereby created the California Credit Enhancement Program within the authority. The purpose of the program is to establish a fund to be used to insure facility bonds issued by the authority in order to achieve lower cost alternatives for public school facilities financing.

17201. Notwithstanding Section 17182, in addition to the powers authorized by this chapter, the authority may leverage its funding for the California Credit Enhancement Program so the amount of credit insurance provided pursuant to the California Credit Enhancement Program exceeds the amount of funds on deposit in the California Credit Enhancement Account within the California School Finance Authority Fund created pursuant to Section 17203.

17202. The authority shall adopt regulations to carry out the provisions of this article. The authority may consult with subject matter experts in the development of the regulations, which shall include, but not be limited to, all of the following:

(a) Eligibility criteria for participating public schools, including financial, performance, organizational, and governance criteria. A public school that is fiscally sound and that has a good credit rating may participate in the California Credit Enhancement Program.

(b) Parameters and procedures for the provision of credit enhancement to eligible financing transactions, including, but not limited to, maximum credit enhancement limits, and provisions necessary to accommodate federal, state, and local regulatory compliance.

(c) The application process and fee schedule.

(d) A definition of “default” for purposes of the program, and procedures so that, in the event of a default, funds from the California Credit Enhancement Account are paid out only after all other sources of payment and credit enhancement to an eligible financing transaction are exhausted.

(e) Options, in the event of a default, to ensure that the first priority of the facility is the continued use for public school purposes. These options may include, but are not limited to, the relet or sale of the facility to another public school and a mechanism by which the state has a right of first refusal to purchase the facility instead of it being sold in a foreclosure sale.

(f) The structure and guidelines for investing in the California Credit Enhancement Program.

17203. There is hereby created the California Credit Enhancement Account within the California School Finance Authority Fund, established pursuant to Section 17181. The authority shall deposit funds identified for the California Credit Enhancement Program in the California Credit Enhancement Account. The authority may, at its discretion, deposit fees collected in accordance with this chapter in the California Credit Enhancement Account, in addition to the funds authorized to be collected pursuant to Section 17181. The authority may designate and hold separately one or more subaccounts within the California Credit Enhancement Account. Nothing in this section shall be construed to require the authority to deposit, or the Legislature to appropriate, funds for the purposes established in this article.

17204. (a) Notwithstanding any other law, bond insurance, credit enhancement, or other guarantees issued under this chapter shall not be deemed to constitute a debt or liability of the state, or any political subdivision thereof, and shall not be deemed to be a pledge of the faith and credit of the state, or any political subdivision thereof, other than the authority. Bond insurance, credit enhancement, or other guarantees of the authority shall be payable solely from funds available in the California Credit Enhancement Account.

(b) Each bond insurance policy, credit enhancement instrument, or other guarantee of the authority issued under the California Credit Enhancement Program shall include a statement on its face that neither the State of California nor the authority is obligated to pay the principal or interest thereon, except from revenues of the authority available therefor, and shall also include a statement that neither the faith or credit, nor the taxing power of the State of California, or any political subdivision thereof, is pledged to the payment of the principal or interest of the bonds covered by the California Credit Enhancement Program.

(c) The issuance of bond insurance, credit enhancement, or other guarantees under this chapter shall not directly, indirectly, or contingently obligate the state, or any political subdivision thereof, to levy or pledge any form of taxation, or make any appropriation for their payment.



Approved \_\_\_\_\_, 2016

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*Governor*